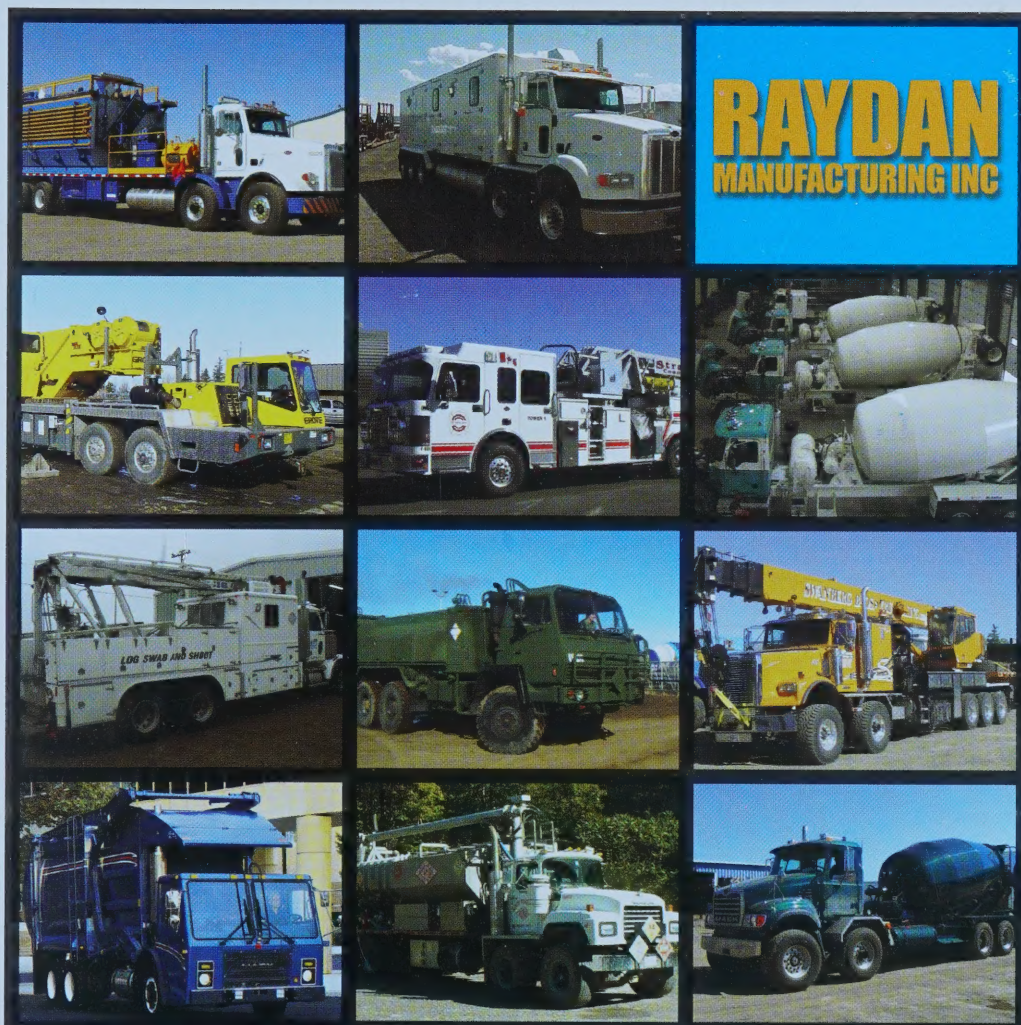
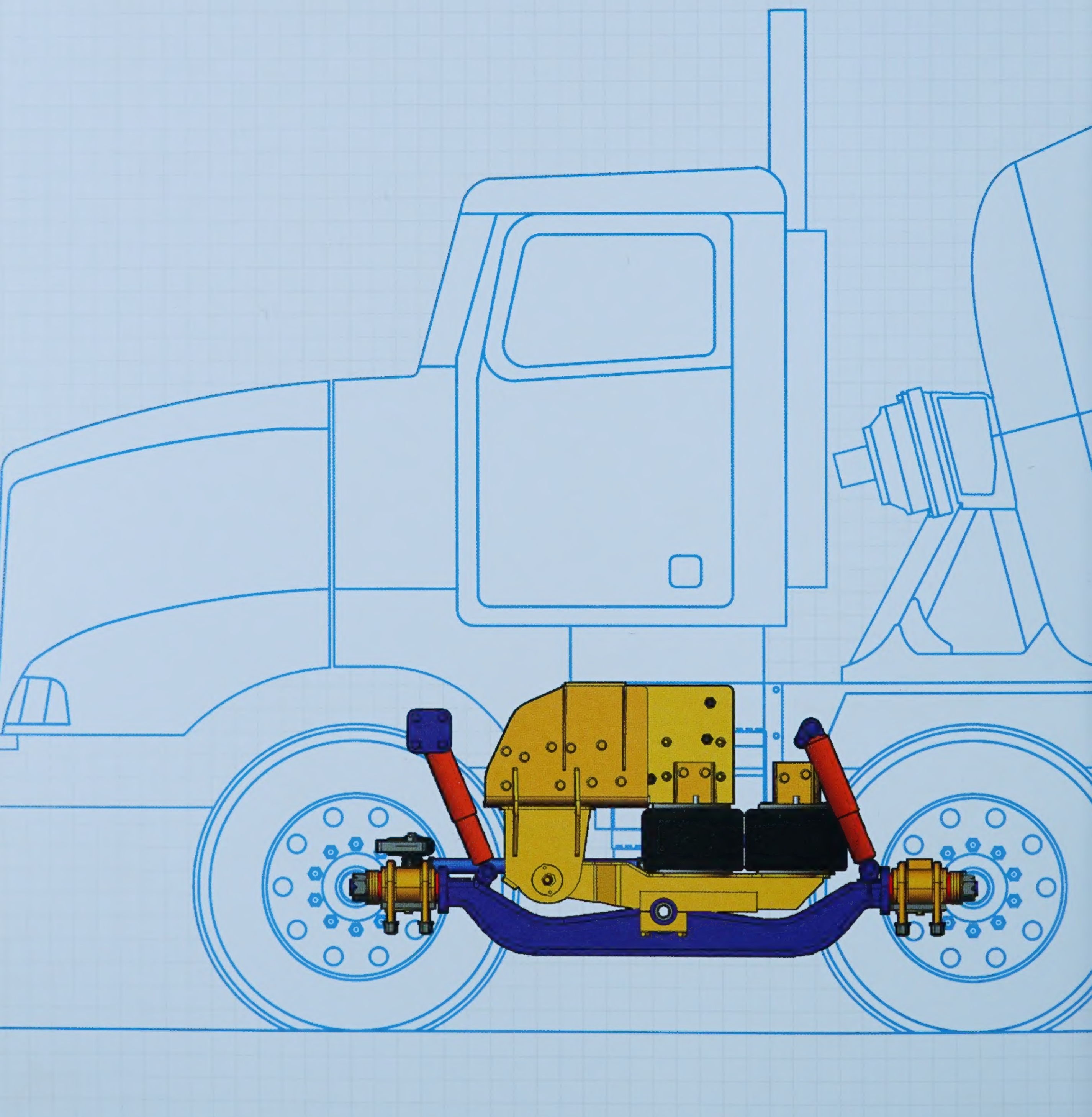


2006 ANNUAL REPORT

COMPETITIVE AGGRESSIVE DETERMINED



CORPORATE PROFILE

"Business is not just doing deals; business is having great products, doing great engineering and providing tremendous service to customers. Finally, business is a cobweb of human relationships."

H. Ross Perot

Raydan Manufacturing Inc. is a global leader in developing and supplying a wide variety of innovative products, including three patented proprietary products: the Air Link air ride walking beam suspension, the Easy Slider, sliding kingpin system and the Air Link for tandem steer applications, all of which have gained strong market recognition and critical acclaim. The Company has also achieved great success engineering front tandemizations and chassis modifications for a wide variety of vocational truck configurations.

This past fiscal year, Raydan acquired the assets of Ontario based Delta Spring and Chassis and Sturdy Truck Body which gives the Company a solid position in eastern Canada, the home of many large fleets of heavy equipment. As a result of recent major expansions, the Company operates from a 57,000 sq. ft. facility near Edmonton, Alberta and a 27,000 sq. ft. site in the Kitchener, Ontario area providing services to the military, transportation, industrial and oilfield industries.

Since its inception in 2002, Raydan has experienced steady growth in sales. In the fall of 2004, Raydan partnered with ArvinMeritor as a custom suspension manufacturer and plans are progressing to incorporate the Air Link™ into the assembly lines of major heavy truck manufacturers. Originally, this partnership allowed twelve to eighteen months for industrialization. ArvinMeritor has chosen to enter into an extended testing and quality control process, which is progressing on schedule.

The Company was listed on the CDNX (now the TSX Venture Exchange) as a public company in July 2001. Management at Raydan is committed to well-managed sustainable growth, while building shareholder value.

Raydan prides itself in being a technology driven company, supplying innovation to the industries we serve. As a result, the Company invests heavily in design, engineering, research and product development year over year. Our mission is to develop quality products that define engineering excellence. With consistent and capable leadership, we seek to ensure long-term, supportive relationships between our customers, vendors, employees and shareholders.

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ACHIEVEMENTS

April 2006	Raydan's engineering team in cooperation with Inland Kenworth Parker Pacific successfully engineered a tandem steer combination in compliance with BC regulations.
April 2006	Raydan completed the net asset acquisition of Ontario based Delta Spring & Chassis Ltd. and Sturdy Truck Body.
April 2006	Raydan announced the expansion of their refurbishment division with the opening of a new Truck Refurbishment Center.
March 2006	Tadano/Faun of Germany requested Raydan witness performance testing of their cranes fitted with the Air Link™ front and rear suspension.
January 2006	Raydan's Truck/Trailer Parts & Repair Centre purchased additional mobile service units to meet demands.
December 2005	Raydan was awarded 'Best Product' by Heavy Duty Trucking magazine for the Air Link™ rear tandem suspension.
November 2005	Raydan's Air Link™ tandem steer conversion package was tested and successfully passed the FMVSS/CMVSS 121 standard.
November 2005	Rita Stegerman, Sales & Marketing Representative for Raydan, was appointed to the Canadian Transportation Equipment Association Board of Directors.
October 2005	The first unit, a 7000L refueller, in the HLVW fleet was received at Raydan.
September 2005	Raydan announced the appointment of Jeff Simms to the position of Compliance Engineer.
September 2005	The Department of National Defence awarded a $12.4 million Base Standing Offer for HLVW Life Extension Program to a joint venture of APM Diesel and Raydan.
July 2005	The Raydan Chassis Modification Center secured a $1.1 million deal to modify trucks for Calgary Peterbilt to be supplied to Precision Well Servicing. This opportunity gives Raydan a high profile presence in the growing and vibrant oilfield industry.
May 2005	Raydan purchased a new 10,000 sq. ft. facility to house the expanding Truck/Trailer Parts & Repair Centre.

"Without continual growth and progress, such words as improvement, achievement and success have no meaning."

Benjamin Franklin

TO MY FELLOW SHAREHOLDERS

Growth

Raydan Manufacturing is an integrated manufacturing and service company with two distinct avenues of revenue generation:

Manufactured Product/
Chassis Modification: 79%

Truck/Trailer Parts & Repair: 21%

Fueled by an ever strengthening economy, Raydan continued to experience strong demand for its products and services in 2006. The Company is committed to being a global leader in the development and production of specialized suspensions, coupling systems and chassis modification for the heavy-duty equipment industry. As the demand for our manufactured products increased, Raydan's aggressive marketing combined with sound management and the successful integration of a major acquisition resulted in increased revenues of 18% for the year.

Prudent financial and managerial strategies during the past fiscal year, enabled the Company to increase its asset base with the strategic eastern Canada acquisition of Delta Spring & Chassis and Sturdy Truck Body. The acquisition increased the size and scope of Raydan and in both cases, we acquired mature companies with long standing business relationships as well as excellent, knowledgeable people. Delta adds $6 million to Raydan's annual revenue base and positions the Company solidly in Ontario; the gateway to the North American truck and heavy equipment industry.

Growing popularity of the Air Link™ suspension system increased demands on Raydan's manufacturing division, requiring expansion and the purchase of a 10,000 sq. ft. facility to house the Truck/Trailer Parts & Repair division. The $12.4 million Base Standing Offer for HLVW Life Extension Program placed further demands on the manufacturing division requiring an additional 10,000 sq. ft. facility for The Truck Refurbishment Center. In 2000, the Company was operating from a 19,000 sq. ft. facility with annual revenues of $2.3 million. To date, Raydan has grown to 84,000 sq. ft. with annual revenues of $13.3 million.

Our biggest challenge still lies in finding qualified employees. The management team began to aggressively address the shortage by focusing on recruiting and retention. We increased our recruiting efforts by attending job fairs and have addressed the retention issue with employee bonuses.

Technology

Raydan's Truck Refurbishment Center is currently involved in a vehicle life extension program for the DND. As with all new ventures, it takes time to structure the process. Going forward, we expect profitability to continue to rise.

The expanded Truck/Trailer Parts & Repair Centre provides Raydan's clientele with a variety of services including heavy-duty equipment service and repair as well as a full service parts department equipped with many brand name vendors. Fuelled by Alberta's robust economy and an aggressive marketing program, the shop is positioned well for increased sales in the current and future years.

ArivinMeritor

In late August 2004, the Company finalized agreements with ArvinMeritor, Inc., a multi-billion dollar supplier to the motor vehicle industry and the largest axle manufacturer in North America.

The License Agreement provides the Company with a pipeline to ArvinMeritor's affiliation with all of the major heavy truck manufacturers. This agreement allowed 12-18 months for industrialization, and as of year end, ArvinMeritor had chosen to enter into an extended testing and quality control program which to date is on schedule.

The Supply Agreement grants the Company access to ArvinMeritor's buying power, which allows the Truck/Trailer Parts & Repair Centre to purchase a wide variety of axle components at a competitive advantage.

May 2005, ArvinMeritor's engineering team travelled to Raydan's Nisku location for training. June of 2005, Raydan shipped component jigs to

"If we're growing, we're always going to be out of our comfort zone."

John Maxwell

ArvinMeritor in Mexico for the fabrication of Mack suspensions. Following the shipment, our production team travelled to their facility to assist in the industrialization and training process.

Engineering

The Raydan engineering team continues to take on new challenges, with the pursuit of initiative, technology and quality. The result is improved performance and wider acceptance of the Company's products.

The Air Link™ and Spring tandem steer conversion packages were tested and successfully passed the FMVSS/CMVSS 121 standard. This is a major step in supporting the NSM (National Safety Mark) requirements. To enforce our NSM, Jeff Simms was engaged to serve as Compliance Engineer.

In 2006, we made significant progress toward our goal to have the Air Link™ suspension standard on all North American truck mount cranes. The engineers at Tadano/Faun of Germany, together with Raydan's engineering team, have successfully completed testing of their cranes fitted with the Air Link™ front and rear suspension. Feedback has been positive and we look forward to a long term relationship.

In pursuit of a Tri-Steer Spring suspension that equalizes, the concrete and oilfied industries have called upon the experts at Raydan. Our engineering team has designed an innovative product which meets industry specifications.

2006 saw another important benchmark. All North American International truck OEMs can now order the Air Link™ suspension online.

Expansion

The Delta/Sturdy acquisition is in line with our strategy to gain access to the Ontario marketplace, the gateway to the North American truck and heavy equipment industry. Raydan has entered into a leaseback agreement with the present landlord to design/build a facility in Kitchener, Ontario. The new complex will increase Delta's operating capacity by 47%. The completion of this facility will represent a milestone in our expansion strategy. It will be fully equipped to offer tandemizations and modifications to the Eastern marketplace. With its proximity to the eastern DND base, we also see this location as a potential platform to expand our military refurbishment services.

Chassis modification represented 3% of the Company's business in 2003. As of April 2005, when the Chassis Modification Center opened, it represented 9% and April 2006 saw an increase to 15%. The growth can be directly attributed to extensive marketing efforts, solid engineering and a loyal customer base. The seven modification bays are to capacity with no end in sight. The positive momentum generated has provided the Company with the financial ability to expand.

Raydan continues to work closely with Transport Canada and the OEMs toward receiving the National Safety designation for GVW, wheel base alterations and final stage manufacturing. This proactive step ensures compliance and safety for our customers.

Our principle goal remains to position Raydan within a dynamic and consolidating industry to meet the needs of the groups critical to our success. Through the dedication and focused efforts of our employees, we intend to be a profitable and entrepreneurial company that continues to deliver increasing value—for our employees, our community and our shareholders.

In closing, I wish to extend my sincere appreciation to our employees for their contributions to Raydan in 2006. Without their passion, commitment and drive for excellence, we could not have moved to the next phase of our evolution. And to our board of directors, clients and shareholders, thank you as always for your confidence and support.

Ray English
President and CEO

MANAGEMENT

DISCUSSION & ANALYSIS

The following MD&A provides information that management believes is relevant to the assessment and understanding of the Company's audited results of operations and financial condition. The discussion should be read in conjunction with the audited Financial Statements and accompanying notes. Certain statements contained in the Management Discussion and Analysis of financial condition and results of operations contain forward-looking statements relating to the operations or to the environment in which we operate that are based on forecasts and projections. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions and the Company's actual results may differ materially from those anticipated in these forward looking statements. This management's discussion and analysis is as of August 21, 2006 and all amounts are expressed in Canadian dollars.

Overall Performance

The year ending April 30, 2006 can be best described as a year of growth and expansion for Raydan Manufacturing Inc. In the past year there was the construction of the Truck/Trailer Parts & Repair Centre, the implementing of a new Enterprise Resource Planning software system, and the acquisition of a new business in Ontario. As well, there has been significant progress made by the Company to attain the National Safety Mark designation. With all of this activity, there were significant costs associated with each, which negatively affected the earnings for the year. As changes are now complete, management will be analyzing more closely all costs and expenses to assure policies and procedures are followed to ensure that 2007 will again be a profitable year.

Selected Annual Information

Selected annual financial information derived from the audited financial statements for the three most recently completed financial years is set forth below and is prepared in accordance with Canadian generally accepted accounting principles. (GAAP).

(in CAD dollars)	**Year Ended April 30, 2006**	**Year Ended April 30, 2005**	**Year Ended April 30, 2004**
Revenue	**$ 13,300,900**	$ 11,287,009	$ 6,759,444
Net Earnings	**(110,462)**	651,239	45,602
Per share (basic)	**(0.007)**	0.044	0.004
Per share (diluted)	**(0.007)**	0.043	0.004
Total Assets	**13,358,422**	9,480,105	4,913,441
Total long-term liabilities (excluding current portion)	**384,687**	15,932	—

Results of Operations

Raydan Manufacturing Inc. is an integrated manufacturing and service company with two distinct sources of revenue generation: manufactured product (Air Link, Easy Slider & Chassis Modification)—consisting of 79% of sales and customer service which consists of 21% of sales.

The manufactured products, Air Link and Easy Slider are sold nationally and internationally. Chassis modifications are performed at the Nisku facility for customers throughout Canada and the U.S. on new and used equipment. The service and repair facility serves the area surrounding the Nisku Industrial Park and with the recent acquisition in Ontario, Raydan now has a presence in the Kitchener area.

Revenue

The demand for Air Link products continues to be strong for the current fiscal year ended April 30, 2006. This trend is expected to continue throughout 2007 and beyond. Raydan's total revenue for the year was $13,300,900, compared to the previous year at $11,287,009, an increase of 18%. The revenue that amounted from the acquisition equates to 4% of the total revenue and is fully disclosed in the notes to the consolidated financial statements (note 15).

Expenses

Gross margin decreased from 22.5% in 2005 to 15.3% in 2006. This was a result of several factors such as the decrease in the U.S. dollar and the increase in labor costs. In particular, salaries and benefits increased 32% from last year mainly due to the increased labor needed to accommodate the expansion of the company's facilities. While the Company was recruiting, there was a need for significant overtime being paid out to finish product and ship on time to our customers. With the Company now operating at full labor capacity, management has implemented a tighter policy on authorizing overtime work. Engineering costs have increased 41% because of the company's desire to achieve the NSM designation. Once the designation has been achieved, engineering costs will be reduced as well. Professional fees are up over 400% for the year because of two reasons. First, the Company had to defend itself legally with regards to protecting Raydan's rights to develop the chassis modification of heavy trucks. The Company was successful in this battle and is now seeking damages for compensation. The second reason was the increase in the audit fee due to the acquisition of net assests of another company. As the company continues to grow, management will remain focused on controlling all discretionary spending to improve earnings for the fiscal year 2007.

Quarterly Review

($000 except earnings per share) Unaudited	First Quarter ended July 31 2005	2004	Second Quarter ended Oct 31 2005	2004	Third Quarter ended Jan 31 2006	2005	Fourth Quarter ended Apr 30 2006	2005
Revenue	3,054	2,713	3,836	2,740	2,450	2,735	3,961	3,099
Net Income (loss) for the period after tax	386	299	136	75	(181)	68	(451)	209
Earnings (loss) per share (Basic)	.025	.024	.009	.006	(.012)	.005	(.029)	.05

Cash Flows and Liquidity

The Company's 2006 cash flow was a negative $3,431,738 compared to a positive $2,691,979 from 2005. The major reason for the decrease in the cash was the purchase of property, plant and equipment for the expansion and the business acquisition in April 2006. The value of Raydan's asset base increased 72% in the year from $2.806 million in 2005 to $4.820 million in 2006 Collection of accounts receivable improved from last year from about 80 days in 2005 to 70 days in 2006. Inventory turnover in 2006 was 3 with 122 days of inventory on hand, compared to 4 in 2005 and 92 days of inventory. The Company expects the cash flow from operations to remain positive throughout the upcoming fiscal year.

The working capital position at April 30, 2006 was $1,982,720 compared to $2,980,804 at fiscal year ended April 30, 2005; a decrease of $998,084. This calculation includes callable debt as a current liability. For

"Unless you try to do something beyond what you have already mastered, you will never grow."

Ronald E. Osborn

the Company, callable debt is bank loans which are actually repaid on a monthly payment basis over a number of years but which have a demand provision in the loan agreements. This is in accordance with accounting rules (GAAP). However, management is of the opinion that the Company's liquid financial position is better represented by considering callable debt as a long-term liability (not GAAP). On this basis, the Company's adjusted working capital would be $4,132,349 at April 30, 2006, and the adjusted current ratio would be 1.8 to 1.

As At:	**April 30, 2006**	April 30, 2005
($000s)		
Capitalization		
Bank Debt & Callable Debt	**4,111**	1,551
Working capital deficiency (Surplus)	**(3,944)**	(2,981)
Net Debt	**167**	(1,430)
Shares Outstanding (#)	**16,053**	15,246
Market price at end of period ($)	**.70**	1.05
Market capitalization	**11,237**	16,008
Total capitalization	**11,404**	14,578
Net debt as % of total capitalization	**1%**	—
Cash flow from operations	**(819)**	705

Capital Investments

Capital investments include a 10,000 square foot Truck/Trailer Parts & Repair Centre in the Leduc Business Park. Long-term debt (now stated as Callable Debt) increased from $1,550.608 in 2005 to $2,149,629 in 2006, as a result of financing for the new facility.

Business Acquisition

The Company also acquired 100% of the tangible net worth (defined as net assets) of Delta Spring & Chassis Ltd. for consideration of $1,908,182. (See note 12 of the financial statements)

Patents

Patents are important to the commercial success of the Company. The Company currently holds Canadian and U.S. patents for the Easy Slider adjustable king pin assembly, Air Link air spring and walking beam system, Air Link air spring and walking beam system for tandem front ends and the walking beam assembly. Raydan has applied for worldwide patent for the Air Link air spring and walking beam system for tandem front ends and the walking beam assembly.

Related Party Transactions

During the fiscal year, the Company continued transactions with Raydan Oilfield Services (1989) Ltd., owned by officers of the company. The transactions are in the normal course of operations and have been valued at the amount of consideration established and agreed to by the related parties.

Changes in Accounting Policies

There were no material changes in accounting policies for the fiscal year ended April 30, 2006.

Off-Balance Sheet Arrangements

At April 30, 2006, the Company had no off-balance sheet arrangements.

Disclosure Controls and Procedures

As of the end of the period covered by this annual report management, with the participation of the certifying officers, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined by the Canadian Securities Administrators). Based on that evaluation, the certifying officers have concluded that such disclosure controls and procedures are effective to provide reasonable assurance that material information relating to the Company is made known to them by others within those entries.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Shareholders of Raydan Manufacturing Inc.

The accompanying financial statements and all information in the Annual Report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies in the notes to the financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions that were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the financial statements.

"He who moves not forward, goes backward"

Johann Wolfgang von Goethe

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon the Company's financial results prepared in accordance with Canadian generally accepted accounting principles. The MD&A compares the audited financial results for the twelve months ended April 30, 2005 and April 30, 2006.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of the financial statements.

The auditors were appointed by the Board of Directors to conduct an audit of these financial statements in accordance with Canadian generally accepted auditing standards. The Audit Committee of the Board of Directors, which is comprised of three directors who are not employees of the Company, reviewed these financial statements with the auditors in detail before recommending their approval to the Board of Directors.

Nisku, Alberta
June30, 2006

Ray English
President and CEO

Dan English
Secretary Treasurer

Hawkings Epp Dumont LLP
Chartered Accountants

E.A. Hawkings, CA*
M.H. Epp, CA, CMA*
W.L. Dumont, CA*
P.J. Dirks, CA*
T.D. Tinney, CA*
J.S. Hawkings, CA*
C.D. Friesen, CA*
L.M. Custer, CMA
D.M. Goulet-Soetaert, CA, CMA*
K.A. van Roijen, CGA
K.A. Bergstreiser, CGA
T.G. Dodd, CA.
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AUDITORS' REPORT

To the Shareholders of Raydan Manufacturing Inc.

We have audited the consolidated balance sheet of Raydan Manufacturing Inc.(" the Company ") as at April 30, 2006 and the consolidated statements of income, retained earnings and cash flow for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

The comparative figures have been audited by Watson Aberant LLP.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Hawkings Epp Dumont LLP

Edmonton, Alberta
June 30, 2006

Hawkings Epp Dumont LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEET

As at April 30	2006	2005
Assets		
Current		
Cash	$ 450,781	$ 901,657
Term deposits (note 3)	1,006,538	2,026,328
Accounts receivable	3,647,626	2,540,040
Inventory (note 4)	3,929,966	1,787,404
Prepaid expenses	118,077	22,774
Income taxes recoverable	43,324	—
	9,196,312	7,278,203
Property, plant and equipment (note 5)	3,741,370	2,000,809
Intangible assets (note 6)	420,740	201,093
	$ 13,358,422	$ 9,480,105
Liabilities		
Current		
Bank indebtedness (note 7)	$ 1,961,072	$ —
Accounts payable and accrued liabilities	2,972,878	2,144,195
Income taxes payable	—	261,993
Current portion of long-term debt (note 9)	130,013	340,604
	5,063,963	2,746,792
Callable debt (note 8)	2,149,629	1,550,608
	7,213,592	4,297,400
Long term debt (note 9)	384,687	15,932
Future income taxes	14,421	10,589
	7,612,700	4,323,921
Contingencies (note 19)		
Shareholders' equity		
Share capital (note 10)	4,959,380	4,259,380
Retained earnings	786,342	896,804
	5,745,722	5,156,184
	$ 13,358,422	$ 9,480,105

Approved on behalf of the board members

Director

Director Ralph Henderson

The accompanying notes are an integral part of these financial statements

STATEMENT OF INCOME

Years ended April 30	2006	2005
Sales	**$ 13,300,900**	$ 11,287,009
Consolidated cost of goods sold (schedule 1)	**11,265,320**	8,750,105
Gross Profit	**2,035,580**	2,536,904
General and administrative expenses (schedule 2)	**2,306,169**	1,587,713
Earnings (loss) from operations	**(270,589)**	949,191
Other Income		
Interest income	**56,356**	30,978
Miscellaneous income	**43,954**	27,552
Gain on sale of property and equipment	**—**	5,221
	100,310	63,751
Earnings (loss) before income taxes	**(170,279)**	1,012,942
Income Taxes (recovered) (note 20)		
Current	**(63,649)**	261,993
Future	**3,832**	99,710
	(59,817)	361,703
Net Earnings (loss)	**$ (110,462)**	$ 651,239
Earnings (loss) per share (note 11)	**$ (0.007)**	$ 0.044

The accompanying notes are an integral part of these financial statements

STATEMENT OF RETAINED EARNINGS

Years ended April 30	2006	2005
Retained earnings—beginning of year	**$ 896,804**	$ 245,565
Net earnings (loss) for the year	**(110,462)**	651,239
Retained earning—end of year	**$ 786,342**	$ 896,804

The accompanying notes are an integral part of these financial statements

Years ended April 30	2006	2005
Operating Activities		
Cash receipts from customers	**$ 12,185,979**	$ 10,497,827
Cash paid to suppliers and employees	**(12,677,649)**	(9,660,665)
Interest and miscellaneous income received	**100,310**	34,868
Income taxes paid	**(241,668)**	—
Interest paid	**(186,209)**	(167,317)
	(819,237)	704,713
Investing Activities		
Purchase of property, plant and equipment	**(1,822,715)**	(1,258,338)
Proceeds on disposal of property, plant and equipment	**3,186**	6,240
Purchase of intangible assets	**(89,426)**	(5,112)
Payment on business acquisition (note 12)	**(1,000,000)**	—
	(2,908,955)	(1,257,210)
Financing Activities		
Bank indebtedness assumed on business acquisition (note 12)	**(252,550)**	—
Proceeds from issuance of shares	**—**	2,157,742
Proceeds from exercise of share options	**20,000**	—
Stock based compensation adjustment	**—**	56,399
Proceeds from callable debt financing	**800,000**	1,059,600
Proceeds from long term debt financing	**43,847**	117,921
Repayment of callable debt	**(200,978)**	(144,239)
Repayment of long term debt	**(113,865)**	(2,947)
	296,454	3,244,476
Increase (decrease) in cash flow	**(3,431,738)**	2,691,979
Cash and cash equivalents—beginning of year	**2,927,985**	236,006
Cash and cash equivalents—end of year	**$ (503,753)**	$ 2,927,985
Cash (deficiency) consists of:		
Cash	**$ 450,781**	$ 901,657
Term deposits	**1,006,538**	2,026,328
Bank indebtedness	**(1,961,072)**	—
	$ (503,753)	$ 2,927,985

The accompanying notes are an integral part of these financial statements

April 30, 2006 and 2005

1. Nature of Operations

Raydan Manufacturing Inc. is incorporated under the Business Corporation Act of Alberta. Raydan Manufacturing Ontario Inc. is incorporated under the Business Corporation Act of Ontario.

The Company's primary operations are:

a) manufacturing and marketing of air based suspensions and king-pin systems for transportation and related industries;

b) transportation equipment servicing and chassis modification; and

c) part sales and service repairs for heavy equipment.

The Company is an original equipment manufacturer selling proprietary products to world wide manufacturers.

2. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the accounts of the Company and it's wholly owned subsidiary, Raydan Manufacturing Ontario Inc. The results of operations of the subsidiary, Raydan Manufacturing Ontario Inc. are included in the consolidated financial statements from the date of acquisition, effective April 1, 2006.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Such estimates include providing for amortization of property, plant and equipment and intangible assets. Actual results could differ from these estimates.

Revenue Recognition

a) Revenue from manufacturing is recognized on a completed contract basis, recognizing revenue only when a contract is completed or substantially so. Anticipated losses are provided for as soon as they become evident.

b) Revenue from servicing and modification is recognized at the time of delivery.

c) Revenue from the sale of parts is recognized at the time of delivery.

Investments

Short term investments consist of term deposits at a chartered bank. The short term investments are carried at cost, plus accrued interest.

Inventory

Inventory is comprised of finished goods, raw materials and work in progress.

The direct material component of finished goods inventory is valued at the lower of cost and net realizable value using weighted average cost. The labor component of finished goods inventory is valued at standard rates.

Raw material inventory is valued at the lower of cost and net realizable value using weighted average cost.

Work in progress represents costs on unbilled jobs in progress at year-end.

April 30, 2006 and 2005

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. The Company provides for amortization using methods at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates and methods are as follows:

Buildings	5%	declining balance method
Parking lot	5%	declining balance method
Equipment	20%	declining balance method
Office equipment	20%	declining balance method
Computer software	20%	declining balance method
Electrical signs	20%	declining balance method
Display units	20%	declining balance method
Computer equipment	30%	declining balance method
Automotive	30%	declining balance method
Display trailer	30%	declining balance method
Leasehold improvements	5%	straight-line method

Intangible Assets

Patents are recorded at cost. Amortization is provided over the estimated useful life of 10 years using the straight-line method.

Deferred acquisition costs are recorded at cost. Amortization is provided over the estimated useful life of 5 years using the straight-line method.

Deferred development costs are recorded at cost. Amortization is provided over the estimated useful life of 5 years using the straight-line method.

National Safety Mark costs are recorded at cost. Amortization is provided over the estimated useful life of 5 years using the straight-line method.

Share Capital

The Company follows the accounting policy of reducing the share issue proceeds by the costs directly related to the issuance.

Impairment of Long-lived Assets

Long-lived assets (e.g. property, plant and equipment) are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of the asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, exists when there is an excess of the carrying value over the fair value.

Earnings per common share

Net earnings (loss) per common share has been computed by dividing the income applicable to common shareholders by the weighted average number of common shares outstanding. The "treasury stock" method is used to calculate the additional shares that would have been outstanding if potentially dilutive common shares had been issued.

April 30, 2006 and 2005

Foreign Exchange

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at year-end exchange rates. Non-monetary assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the rates of exchange in effect at their transaction dates. The resulting gains or losses are reported in cost of goods sold.

Stock Based Compensation

Currently, all outstanding stock options of the Company have been granted to directors and employees of the Company. Consideration paid by directors and employees on the exercise of stock options is recorded as share capital.

All stock based compensation is measured and recognized based on the fair value of the instruments and expensed in the consolidated financial statements. As new options are granted, the fair value of these options will be expensed over the vesting period, with an offsetting entry to contributed surplus. The fair value of each option granted is estimated on the date of granting using the Black-Scholes option pricing model. Upon exercise of the stock options, consideration received together with amounts previously recorded in contributed surplus are recorded as an increase in share capital.

Future Income Taxes

The Company records future income taxes using the asset and liability method. Under this method, future tax assets and liabilities are determined based on the difference between the tax basis of an asset or liability and its carrying value basis on the balance sheet. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Government Assistance

Government assistance received from Scientific Research and Experimental Development Investment Tax Credits is recorded as a reduction in research expenses, which are included in cost of goods sold, when received.

During the year, $51,628 was received in Scientific Research and Experimental Development Investment Tax Credits.

3. Term Deposits

The term deposit earns interest at 3.92% for a term of 30 days and it is renewed every 30 days.

4. Inventory

	2006	2005
Finished goods	**$ 2,383,647**	$ 609,961
Raw material	**1,361,047**	1,177,443
Work in progress	**185,272**	—
	$ 3,929,966	$ 1,787,404

April 30, 2006 and 2005

5. Property, Plant and Equipment

	Cost	Accumulated Amortization	**2006 Net Book Value**	2005 Net Book Value
Land	$ 376,251	$ —	**$ 376,251**	$ 116,251
Buildings	2,889,415	367,692	**2,521,723**	1,353,077
Parking lot	18,466	539	**17,927**	—
Equipment	697,575	298,505	**399,070**	268,368
Office equipment	81,929	68,376	**13,553**	17,272
Computer software	213,596	76,191	**137,405**	122,294
Electrical signs	9,890	6,533	**3,357**	3,811
Display units	55,944	42,093	**13,851**	17,314
Automotive	283,889	126,246	**157,643**	44,697
Computer equipment	151,666	65,332	**86,334**	41,777
Display trailer	38,168	27,004	**11,164**	15,948
Leasehold improvements	3,144	52	**3,092**	—
	$ 4,819,933	$ 1,078,563	**$ 3,741,370**	$ 2,000,809

6. Intangible assets

	Cost	Accumulated Amortization	**2006 Net Book Value**	2005 Net Book Value
Patents	$ 389,394	$ 270,756	**$ 118,638**	$ 157,577
Deferred acquisition costs (note 12)	224,860	—	**224,860**	—
Deferred development costs	90,996	70,791	**20,205**	38,404
National Safety Mark	57,037	—	**57,037**	5,112
	$ 762,287	$ 341,547	**$ 420,740**	$ 201,093

7. Bank indebtedness

Raydan Manufacturing Inc. has a maximum authorized line of credit of $2,500,000 (2005 - $1,200,000) bearing interest at prime plus .75% (2005 - prime plus 1%). The line of credit is secured by a general security agreement providing a first fixed charge over all present and after acquired property and two demand collateral mortgages. In addition, the subsidiary, Raydan Manufacturing Ontario Inc. has fully guaranteed this line of credit.

8. Callable Debt

	2006	2005
Bank loan bearing interest at 5.9% per annum, repayable in monthly blended payments of $6,290. The loan matures on April 29, 2007.	**$ 717,916**	$ 750,000
Bank loan bearing interest at 5.7% per annum, repayable in bi-weekly blended payments of $3,050. The loan matures on October 5, 2007.	**774,919**	—

April 30, 2006 and 2005

Bank loan bearing interest at 6.625% per annum, repayable in weekly blended payments of $1,515. The loan matures on October 5, 2007.	**506,806**	550,612
Bank loan bearing interest at prime plus 1% per annum, repayable in monthly blended payments of $8,334. The loan matures on October 5, 2007.	**149,988**	249,996
	$ 2,149,629	$ 1,550,608

	2006	2005
Principal repayment terms are approximately:		
2007	**$ 216,982**	
2008	**174,328**	
2009	**132,190**	
2010	**140,527**	
2011	**149,393**	
Thereafter	**1,336,209**	
	$ 2,149,629	

The debt is secured by a general security agreement, general assignment of debts, two demand collateral mortgages conveying first fixed charges, general assignment of rents and leases, and an overdraft lending agreement in the amount of $2,500,000.

In addition, the debt is guaranteed by Raydan Manufacturing Ontario Inc., supported by a general security agreement.

The debt is due on demand and has been classified as callable debt; however, it is management's opinion that the demand provisions will not be utilized by the bank and that the debt will be repaid according to the specified repayment terms.

The financial covenants require that the Company maintain a debt to tangible net worth ratio not greater than 2.0 to 1 and to maintain a current ratio not less than 1.25 to 1. These covenants are tested annually at year-end based on audited year-end consolidated financial statements. The Company was in compliance with these financial covenants at the year-end.

April 30, 2006 and 2005

9. Long Term Debt

	2006	2005
National Research Council loan bearing interest at 0% per annum, repayable in monthly blended payments of $10,000. The loan matures on June 30, 2008. Interest is waived as long as the Company adheres to the payment schedule. The loan is unsecured.	**$ 229,929**	$ 331,529
Finance contract loan bearing interest at 3.9% per annum, repayable in monthly blended payments of $824. The loan matures on December 12, 2007 and is secured by specific asset with a net book value of $13,210.	**15,932**	25,007
Finance contract loan bearing interest at 7.3% per annum, repayable in monthly blended payments of $1,056. The loan matures on December 6, 2010 and is secured by specific asset with a net book value of $36,874.	**40,657**	—
Promissory note relating to business acquisition (note 13) bearing interest at 7% per annum, repayable in monthly payments of $1,331 interest only to April 1, 2007. Thereafter the loan is repayable in monthly blended payments of $7,046. The loan matures on April 30, 2010 and is unsecured.	**228,182**	—
	514,700	356,536
Amounts payable within one year	**(130,013)**	(340,604)
	$ 384,687	$ 15,932

Principal repayment terms are approximately:

2007	$ 130,013
2008	199,450
2009	94,594
2010	90,643
	$ 514,700

10. Share Capital

Authorized:

Unlimited Common voting shares

Unlimited Preferred shares

	2006	2005
Issued:		
16,052,960 Common voting shares	**$ 4,959,380**	$ 4,259,380

April 30, 2006 and 2005

	2006		2005	
	Shares	**Amount**	Shares	Amount
Common voting shares				
Shares outstanding, beginning of the year	**15,246,331**	**$ 4,259,380**	12,575,722	$ 2,045,238
Shares issued on acquisition of the net assets of Delta Spring & Chassis Ltd.	**766,629**	**680,000**	—	—
Employee bonuses	—	—	112,500	40,500
Options exercised by officers and directors	**40,000**	**20,000**	407,572	127,294
Private placement	—	—	2,150,537	2,000,000
Less: issuance costs	—	—	—	(10,051)
Prior year adjustment for costs related to exercised stock options	—	—	—	56,399
Shares outstanding at the end of the year	**16,052,960**	**$ 4,959,380**	15,246,331	$ 4,259,380

The 766,629 common shares issued in the year are subject to escrow. The escrow conditions permit the shareholder to sell 1/3 after the first anniversary of closing, being April 1, 2007; 1/3 after the second anniversary of closing, being April 1, 2008 and the remainder after the third anniversary of closing, being April 1, 2009.

11. Earnings Per Share

	2006	2005
Numerator		
Net income (loss)	**$ (110,462)**	$ 651,239
Denominator		
Weighted average denominator for basic shares	**15,316,465**	14,827,502
Weighted average denominator for diluted shares	**15,713,761**	15,252,502
Basic earnings (loss) per share	**$ (0.007)**	$ 0.044
Diluted earnings (loss) per share	**$ (0.007)**	$ 0.043

In the current year, the diluted earnings per share reported is the same as the basic earnings per share as the actual calculation is anti-dilutive.

12. Business Acquisition

Effective April 1, 2006, the Company acquired 100% of the tangible net worth (defined as net assets) of Delta Spring & Chassis Ltd. for consideration of $1,908,182. Consideration was comprised of cash of $1,000,000, vendor promissory note of $228,182 (note 9) and 766,629 common shares of Raydan Manufacturing Inc. at $0.887 per share totaling $680,000 (note 10).

April 30, 2006 and 2005

The acquisition has been accounted for under the purchase method of accounting and the results of earnings since the effective date of acquisition have been included in the consolidated statement of income.

The allocation of the aggregate purchase price based on the estimated fair values of the net assets was as follows:

	2006
Bank indebtedness	$ (252,550)
Non-cash working capital	1,966,410
Property and equipment	194,322
	$ 1,908,182

On the first anniversary of the effective date, any adjustment to net assets, if required, will serve to reduce the vendor promissory note (note 9) on a dollar for dollar basis.

Acquisition costs in the amount of $224,860 are recorded as intangible assets (note 6).

13. Related Party Transactions

The following is a summary of the Company's related party transactions:

	2006	2005
Raydan Oilfield Services (1989) Ltd.		
Raydan Oilfield Services (1989) Ltd. is owned by officers of Raydan Manufacturing Inc.		
Equipment rental	$ 15,000	$ 21,000
PolyPlus Distributions Inc.		
PolyPlus Distributions Inc. is owned by the son of a director of Raydan Manufacturing Inc.		
Parts purchase	—	786,981
	$ 15,000	$ 807,981

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. Stock Based Compensation Plan

The Company has a stock option plan. Under this plan options to acquire a maximum of 10% of the issued common shares may be granted to directors, officers and employees of the Company subject to the following limitations:

(i) The term of an option shall not exceed 5 years from the date of the grant of the option.

(ii) No options shall be granted to any optionee if the total number of shares reserved for issuance to such optionee would exceed 5% of the issued and outstanding shares.

(iii) The number of shares reserved for issuance pursuant to options may not exceed 10% of the issued and outstanding shares.

April 30, 2006 and 2005

Details of the stock options, which vest immediately, are as follows:

	2006 Number	2006 Weighted Average Exercise Price	2005 Number	2005 Weighted Average Exercise Price
Outstanding, beginning of year	**850,000**	**$ 0.50**	1,257,572	$ 0.44
Exercised	**(40,000)**	**0.50**	(75,000)	0.50
Exercised	—	—	(332,572)	0.27
Outstanding and exercisable at end of year	**810,000**	**$ 0.50**	850,000	$ 0.50
Exercisable at year end	**810,000**	**$ 0.50**	850,000	$ 0.50

The outstanding stock options expired on June 18, 2006.

15. Segmented Information

Operating segments are as follows:

	2006	2005
Revenue from external customers		
Manufacturing and chassis modification (Alberta)	**$ 10,460,943**	$ 9,098,297
Service and parts (Alberta)	**2,298,466**	2,188,712
Service and parts (Ontario)	**541,491**	—
Total sales	**$ 13,300,900**	$ 11,287,009
Total segment assets		
Manufacturing and chassis modification (Alberta)	**$ 2,151,874**	$ 1,949,537
Service and parts (Alberta)	**1,392,553**	51,272
Service and parts (Ontario)	**196,943**	—
Total assets	**$ 3,741,370**	$ 2,000,809

16. Lease Commitments

The Company has entered into an agreement with one of its landlords who will construct a new building. Once construction is completed then the obligation under the existing lease will be released in favor of another lease. As security for the due performance of the lease, the Company has provided a $150,000 Letter of Credit (note 19).

The Company leases office space at various locations expiring on April 30, 2009 and December 31, 2011.

Minimum existing annual lease payments are as follows:

2007	$ 149,045
2008	149,045
2009	149,045
2010	88,565
2011	59,043

April 30, 2006 and 2005

17. Financial instruments

Financial instruments consist of cash, term deposits, accounts receivable, bank indebtedness, accounts payable and accrued liabilities.

(a) Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers; however it is the opinion of the Company's management that the credit risk is minimal. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

(b) Fair Value

The Company's carrying value of cash, term deposits, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximates its fair value due to the immediate or short term maturity of these instruments.

The carrying value of the callable debt and long term debt approximates the fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms.

(c) Currency Risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. Sales to U.S. customers during the year account for greater than 50% of the gross sales of the Company.

18. Comparative Figures

The comparative figures are not consolidated as Raydan Manufacturing Ontario Inc. did not exist until one month prior to the year end.

Some of the comparative figures have been reclassified to conform to the current year's presentation.

19. Contingencies

The Company has been served with a statement of claim, issued by a former employee claiming damages for wrongful dismissal. The Company is defending against the claim. An estimate of a settlement, if any, cannot be made as of the audit report date.

During the year, the Company has been successful in defending a patent infringement claim. The Company is seeking to recover legal fees related to this claim in the amount of approximately $60,000. The actual amount recovered, if any, may vary from the amount claimed.

A Letter of Credit, in the amount of $150,000, has been issued to the Ontario landlord as security for the due performance of one of the leases (note 16). The Company is committed to adding $100,000 to the Letter of Credit upon the signing of the lease as well as adding a further $250,000 to the Letter of Credit on September 30, 2006 for a total of $500,000. The terms of these commitments is dependent upon specific performance obligations of the landlord that have not occurred as of the date of these consolidated financial statements.

April 30, 2006 and 2005

20. Income Taxes

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 33.67% (2005 - 32.94%) to the income for the year and is reconciled as follows:

	2006	2005
Loss before income taxes	**$ (170,279)**	$ 1,012,942
Income tax expense at the combined basic federal and provincial tax rate:	**$ (57,333)**	$ 333,663
Increase (decrease) resulting from:		
Non-deductible expenses	**17,787**	(11,965)
Non-taxable portion of gain on sale of assets	**—**	(1,720)
Future income tax expense	**3,832**	(9,070)
Non-capital loss carried forward	**—**	(70,168)
Adjustment to prior year income taxes, as filed	**(16,100)**	—
Originating (reversing) temporary differences recorded at tax rates expected to be in effect when realized	**(8,003)**	120,963
Effective tax expense	**$ (59,817)**	$ 361,703

As at April 30

Consolidated Cost of Goods Sold — **Schedule 1**

	2006	2005
Materials	**$ 6,817,622**	$ 5,289,285
Salaries and benefits	**3,157,362**	2,385,551
Engineering	**419,847**	297,572
Occupancy costs	**197,099**	200,324
Loss on foreign currency exchange	**185,915**	89,125
Travel and automotive	**157,048**	201,160
Amortization of intangible assets	**57,138**	57,138
Amortization	**273,289**	229,950
	$ 11,265,320	$ 8,750,105

Consolidated General and Administrative Expenses — **Schedule 2**

	2006	2005
Wages and benefits	**$ 714,793**	$ 572,920
Marketing	**464,392**	400,309
Office and miscellaneous	**414,583**	232,318
Professional fees	**355,442**	70,555
Interest on long term and callable debt	**124,521**	119,046
Travel and automotive	**95,446**	52,797
Investor relations	**67,973**	103,420
Interest and bank charges	**61,687**	32,323
Bad debts	**7,332**	4,025
	$ 2,306,169	$ 1,587,713

The accompanying notes are an integral part of these financial statements

INFORMATION

Board of Directors

Ray English
Chairman
Chief Executive Officer
Raydan Manufacturing Inc.

Dan English
Secretary-Treasurer
Operations Manager
Raydan Manufacturing Inc.

John Babic B Com, BA
Director
President, Professional Consulting Solutions Ltd.

Ralph Henderson B Com, FCA
Director
President, R. Henderson & Assoc. Inc.

Len Jaroszuk
Director
President, Westone Ventures Inc.

Bob Sparrow
Director
President, Nisku Truck Stop Ltd.

Associates

Bank
Canadian Western Bank
South Edmonton Common
Edmonton, Alberta

Auditors LLP
Hawkings Epp Dumont LLP
Edmonton, Alberta

Legal Counsel
Andrew J. Hladyshevsky Q.C.
Fraser Milner Casgrain LLP

Transfer Agent & Registrar
CIBC Mellon Trust Company
Calgary, Alberta

Head Office

601 - 18th Avenue
Nisku, Alberta T9E 7T7
Tel: 780 955-2859
Fax: 780 955-2386

Annual General Meeting

Raydan's Annual General Meeting will be held at 2:00 pm on Monday, Oct. 30, 2006 at the Nisku Recreation Centre, 606 - 18th Avenue, Nisku, Alberta

Stock Exchange Listing

Raydan Manufacturing is traded on the TSX Venture Exchange under the symbol RDN

Fiscal year end is April 30. First, second and third quarters are July 31, October 31 and January 31 respectively.

Share Price Information

The following is a summary of the monthly closing share price of the Company trading on the TSX Venture Exchange.

Share Price

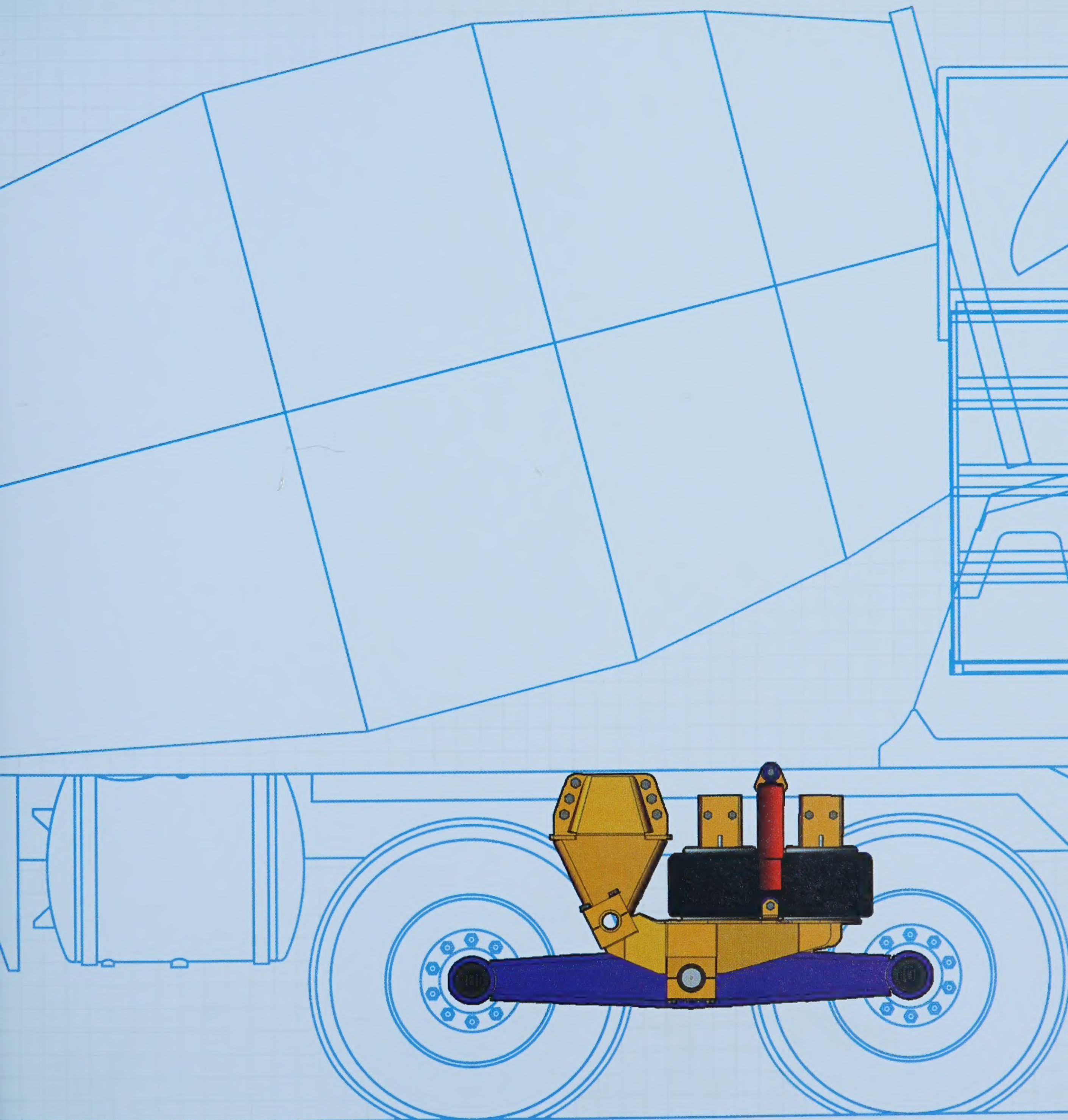
52 week high	1.20
52 week low	.67

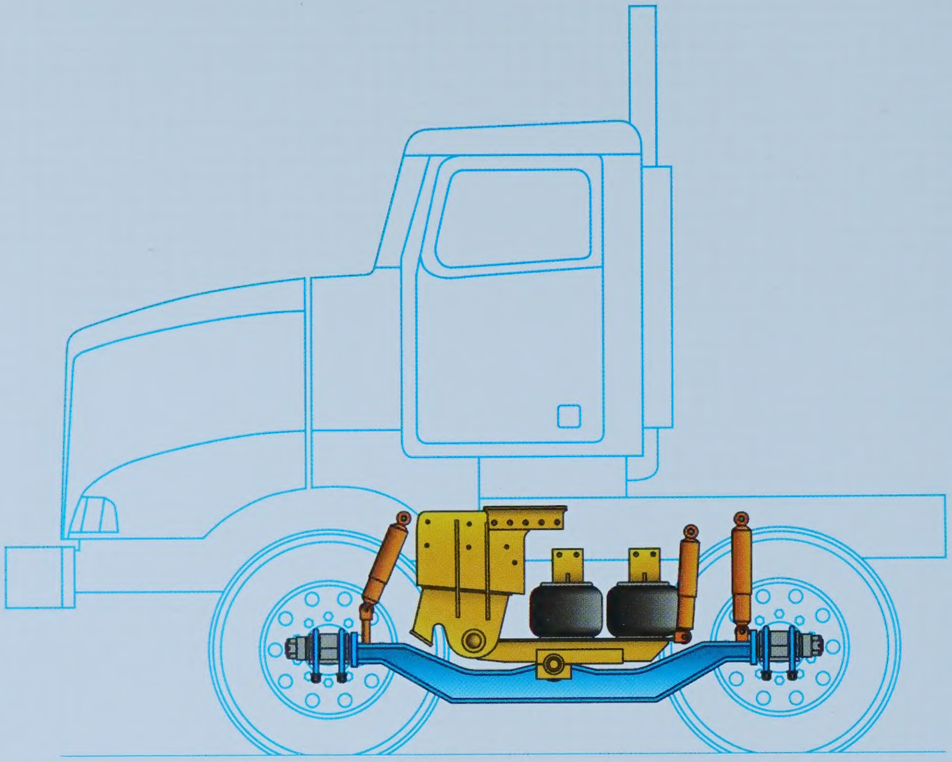
Monthly Closing Share Price

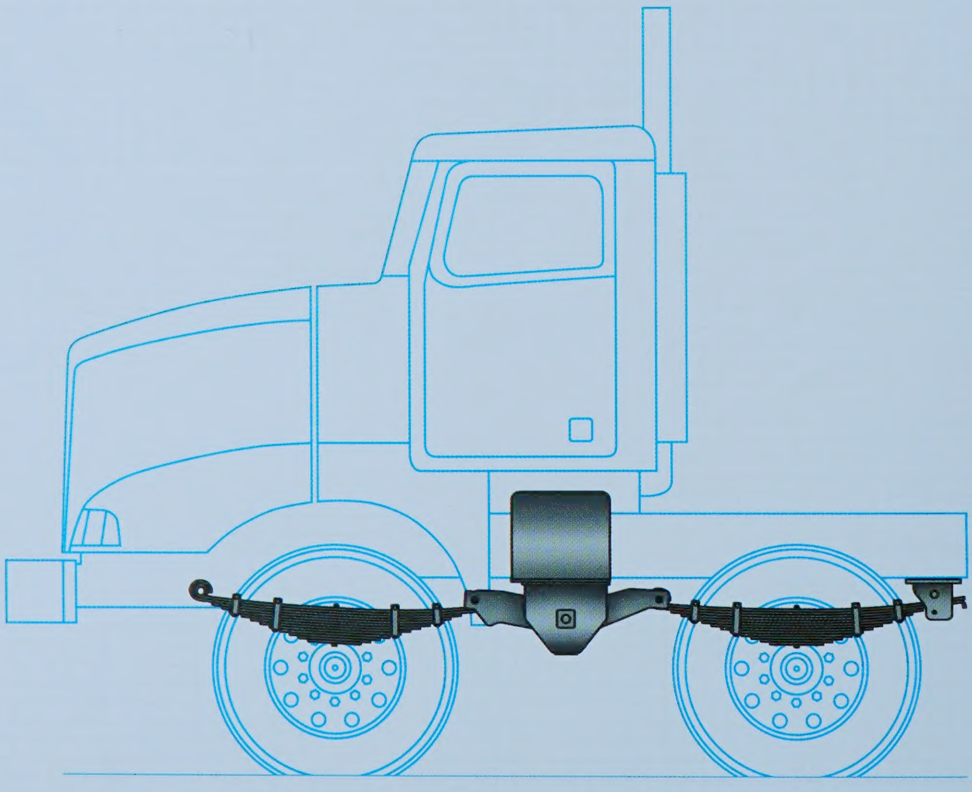
May 05	1.09
June 05	1.05
July 05	1.10
August 05	1.00
September 05	1.10
October 05	.98
November 05	.99
December 05	1.07
January 06	.93
February 06	.90
March 06	.82
April 06	.70

N O T E S

NOTES







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